Recurring Payment Introduction

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Content

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Recurring Payment Introduction

1. Terms

1. **NRO:** Negative Renewal Option, a business practice where a merchant offers a free or low-cost trial period of physical goods, digital goods, or services and then automatically enrolls the cardholder into a recurring billing/subscription plan once the trial period ends.
2. **CIT:** cardholder-initiated transaction
3. **MIT:** merchant-initiated transaction
4. **OTID:** When a cardholder initiates a transaction, the system needs to generate a unique OTID to identify this transaction.
5. **Store the transaction identifier (OTID) of the initial Cardholder-Initiated Transaction (CIT):** When a cardholder initiates a transaction, the system will generate a unique OTID to identify this particular transaction, and then store it in a database, log file, or other storage media for the purpose of subsequent transaction tracking, management, and security verification.
6. **PAN:** Primary Account Number, referring to the primary account number of a Visa card, which consists of 16 or 19 digits and complies with the ISO/IEC 7812 standard.
7. **VAU:** Visa Account Updater. When an issuer updates a Visa card's PAN to a new number and the old number is recorded in the Visa MIT system, the system will copy the old PAN information to the new PAN record. Subsequently, regardless of whether an MIT service request is submitted using the old PAN or the new PAN, as long as the request meets the criteria, the MIT response will populate its OTID within the same payment agreement (such as the same subscription service or recurring payment plan). This service is applicable to VAU and real-time VAU.

2. Visa NRO Rules

Visa updated its rules regarding free trials and auto-renewing subscriptions in 2020, with the aim of strengthening communication standards between consumers and merchants. All merchants utilizing or connected to the Visa network are required to comply with these new regulations. The core elements of the new rules can be summarized into five key provisions: enhanced notification, easier cancellation, transaction receipts, clearer dispute processes & prevention, and ongoing monitoring. The following is a detailed introduction:

1. **Enhanced Notification**, including:
    - Confirmation that the cardholder has agreed to a subscription, unless the cardholder cancels.
    - The start date of the subscription and details of the goods/services.
    - Ongoing transaction amount and billing frequency/date.

2. **Easier Cancellation**

Merchants must provide an easy way to cancel the subscription or payment method online, regardless of how the cardholder initially interacted with the merchant (for example, a pop-up store in a shopping mall, door-to-door sales, or a TV/Radio ad).

3. **Transaction Receipts**

Once the subscription has been agreed to, and consent has been obtained, merchants must send transaction receipts or other written confirmation that the changes have been initiated, even if the subscriber's card hasn't been charged yet. Transaction receipts should be sent and electronically signed via email or SMS message. Visa subscription transaction receipts should include all of the items included in the disclosures section above, as well as:

- The last four digits of the credit or debit card used to subscribe
- Any updated cancellation policy information
- Any updated cancellation links or criteria

In addition to providing transaction receipts, it is imperative for merchants to formally notify the subscriber via email or SMS that their free trial period is approaching its conclusion, and that they will be charged on the agreed-upon subscription start date.

Furthermore, in the event of any modifications to the subscription terms, including but not limited to changes in pricing, service offerings, or any other alterations to the subscription conditions, merchants are required to inform the subscriber promptly. Additionally, it is essential to ensure that each communication contains a cancellation link along with clear instructions for its use.

4. Clearer Dispute Processes & Prevention

In order to limit incoming disputes, Visa’ s subscription rules affect the following:

- **Unique Billing Descriptors**

Merchants’ billing descriptor should include more than your name and logo when it comes to free trial subscriptions. Using a dynamic billing descriptor that includes ‘free trial’ or ‘trial period’ to accurately distinguish the transaction on the subscriber’s statement.

- **Disputes**

If consumers aren’t aware they’re signing up for a service, they can’t be held to it. In response, merchants have the right to fight back by providing evidence of adequate disclosure, cardholder acceptance, and subsequent notification.

- **Response**

Merchants should only supply evidence that can be considered ‘compelling’, which to card networks implies verifiable information. That said, compelling evidence, according to Visa, including the subscriber’s signature (electronic or otherwise) on pertinent subscription agreements, the subscriber’s signature on subsequent payment agreements, proof that the subscriber was notified at least 7 days before the free trial’s completion.

5. Ongoing Monitoring

Visa will routinely monitor your recurring indicator and statement descriptor. They will also keep an eye out for excessive disputes and fraud, and intervene if they suspect abuse. Lastly, Visa will require both mystery shopping and transaction monitoring to watch for:

- Adequate cancellation processes
- Notifications
- Appropriate disclosures

Information Source:

https://usa.visa.com/dam/VCOM/global/support-legal/documents/visa-new-subscription-rules-flier.pdf

3. MasterCard NRO Rules

Effective 11 October 2022, Mastercard implemented modifications to its requirements for merchants offering subscriptions or low-cost/free trials of physical goods, digital goods, or services on a recurring basis.

- Ensure transparency to cardholders at the time of enrollment/purchase
- Send a confirmation email at time of enrollment
- Provide an online cancellation method
- Send a receipt after every billing
- Send a notice 7 days prior to billing for annual subscriptions

Survey shows that negative option billing practices can burden consumers with recurring payments for products and services they did not intend to purchase or did not want, resulting in significant volumes of chargebacks. These requirement can increase transparency and clarity around subscription transactions, therefore, help reduce complaints and provide a better cardholder experience.

For annual subscriptions, notifications should be sent 7 days prior to the billing date. MasterCard requires all acquirers globally to populate the recurring payment indicator when submitting card-not-present CIT transactions that initiate a series of recurring payments, and to include this indicator in every subsequent transaction of the recurring payment series.

Information Source:

https://www.mastercard.us/content/dam/public/mastercardcom/na/global-site/documents/subscription-and-negative-option-billing-model-summary.pdf

4. Visa Account Updater

Account Updater is a service provided by card networks/card associations to assist merchants in automatically updating consumer's credit or debit card information. When a cardholder's card information changes due to expiration, loss, or replacement, Account Updater automatically provides the merchant with the latest card details, eliminating the need for the cardholder to re-submit their information. For merchants relying on repeat purchases, recurring payments, or subscription services, Account Updater helps reduce payment declines caused by outdated card information, thereby enhancing the payment experience for consumers and increasing merchant revenue.

In order for the subscription function to operate properly, merchants need to retain accurate payment card data of consumers for future recurring orders. However, consumers' card information may change for various reasons, such as:

- Card has been replaced due to being lost or stolen.
- Card has expired.
- Cardholder's account has closed or upgraded.
- Consumer's name or address has been changed.

- The issuing bank has merged with other financial institutions.
- The issuing bank has changed its credit card network membership.

4.1. Real-Time Account Updater

Real-Time Account Updater has the characteristic of being instant. While processing payments, Oceanpayment sends an update request to Visa automatically, and use the latest card details to continue the payments. Real-Time Account Updater only supports Visa at the moment.

4.2. Batch Account Updater

By Batch Account Updater, Oceanpayment regularly obtains the latest card information from card organizations and stores it in the system, so that the system can retrieve the most up-to-date card information for consumers' next transactions. Batch Account Updater supports Visa, MasterCard and Discover.

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